Exchange rate issues Guest editors' introduction to the thematic issue of Public Sector Economics

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Guest editors' introduction
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This issue of *Public Sector Economics* brings together two winning entries from the 2025 *Hanžeković Foundation Competition* for papers in public sector economics, and four papers selected from submissions to a call for papers on exchange rate issues.

The winning entries in last year's Hanžeković Foundation Competition both analyse inflation in Croatia. Frane Banić and Guzmán González-Torres received the regular award for their paper *Different strokes for different folks: untangling supply and demand shocks using survey-data to assess sectoral inflationary pressures in Croatia*, while Mihael Brusan and Jakov Čorak received the student award for their paper *Inflation in Croatia: a new era of forecasting with machine learning*.

The four papers and a book review in the thematic part analyse the international monetary system at different levels, including the global dominance of the US dollar, its consequences for sovereign debt, inflation and growth, and the role of foreign currency reserves and policy credibility during crises and military conflicts. The contributions move from structural foundations, including why the dollar matters, to the transmission mechanisms operating through exchange rates to debt, inflation and growth, and then to policy buffers such as reserves and communication that shape outcomes under both normal and extraordinary conditions.

The paper *Public debt and the dollar* by Aaron Mehrotra examines one of the key transmission channels of dollar dominance, namely sovereign debt dynamics. Using a large cross-country panel, the paper shows that periods of US dollar appreciation are associated with higher public debt ratios over the medium term. This effect is concentrated in emerging market and developing economies, and is unsurprisingly strongest where foreign currency debt shares are high and market perceptions of debt sustainability are weak. The results highlight how the dollar acts not only as a trade and financial currency but also as a global financial condition factor that amplifies fiscal vulnerabilities. Advanced economies appear largely insulated from the negative impact of dollar appreciation on their public debt, underscoring asymmetric exposures within the international monetary system.

The second contribution, *When the guns roar: how the war, reserves and exports shape Ukraine's cost of external borrowing* by Sergii Sheludko shows, using the example of Ukraine, that military conflict sharply increases sovereign borrowing costs, while international reserves play a crucial stabilising role by narrowing spreads even in such circumstances. Export revenues provide some support but are highly volatile due to logistical disruptions. The findings demonstrate that, in the most adverse conditions, central bank foreign currency reserves remain a key policy buffer shaping market perceptions of debt sustainability and the country's access to external finance. This finding resonates with the broader conclusions of other papers in this special issue, on the vulnerability created by external exposure, the importance of credible buffers in maintaining economic stability, and the centrality of the dollar.

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Complementing the analysis of macroeconomic exposures to foreign currency fluctuations, the third paper, *Effects of reputation and monetary policy communication on exchange rate uncertainty: evidence from an emerging economy*, by Juan Camilo Anzuátegui Zapata, Danilo Rodríguez Arango and Sergio David Sánchez Varela shows how in Colombia an enhanced central bank reputation, clearer policy communication, and unanimous decision making significantly reduce exchange rate uncertainty, which is measured through disagreements in exchange rate expectations and exchange rate forecast errors. These findings suggest that even in emerging market economies exposed to large external real and financial sector shocks, a credible central bank and transparent communication can mitigate volatility and uncertainty, thereby dampening some of the adverse spillovers associated with global oil prices and dollar movements.

The fourth contribution, *Currency depreciation and inflationary pressure vis-à-vis monetary intervention: perspectives on growth and policy imperatives*, by Samson Edo and Eseosa Joy Sowemimo shifts attention to how exchange rate movements, often driven by global dollar cycles, affect economic growth in Sub-Saharan African countries. The study finds that currency depreciation and inflation exert a strong negative impact on growth, contradicting the simplistic view that depreciation boosts growth by raising export competitiveness. Importantly, foreign exchange interventions by central banks are found to be largely ineffective in offsetting these adverse pressures, reflecting constraints imposed by low reserve buffers and conflicting goals of monetary and fiscal policies. The paper reinforces the idea that exchange rate movements can entail persistent growth costs when domestic financial and institutional conditions are weak.

The review of Kenneth Rogoff's book *Our Dollar, Your Problem* rounds off this thematic issue by explaining why the US dollar remains at the centre of the international monetary system despite rising geopolitical fragmentation. The book emphasises the historical roots of dollar dominance, the unmatched depth and liquidity of US financial markets and the central role of US Treasury securities as global safe assets. While challengers such as the euro and the renminbi have gained ground at the margin, structural weaknesses, including fragmented financial markets in Europe and capital controls in China, limit their global expansion. The review situates current debates on de-dollarisation in a historical perspective, and stresses that the erosion of dollar dominance, if it occurs, is likely to be gradual rather than abrupt.

As the editors of this thematic issue, we would like to thank the authors for their efforts in preparing this set of stimulating and analytically rich papers; the reviewers for their insightful comments and patient reading of multiple versions of manuscripts; the copyeditor Marina Nekić from the Institute of Public Finance for her guidance in preparing the manuscripts; and the editor-in-chief Mihaela Bronić and co-editor Katarina Ott of *Public Sector Economics* for giving us the opportunity to arrange this special issue.